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TAGS: [EFIN](#) [ECON](#) [TU](#)
SUBJECT: TURKEY: IMF, LABOR, AND ILL-ADVISED PENSION
AMNESTIES

REF: ANKARA 996

Classified By: Econ Officer Courtney Turner for reasons 1.4 (b/d)

¶1. (C) Summary. President Abdullah Gul signed into law a new employment and labor reform package this week. Key components include a five-percent reduction in employer social security contributions, five-year GOT subsidies of social security premiums for companies that hire women or young people, and reduced administrative costs. It allows the GOT to use accrued interest in the unemployment insurance fund, along with USD 2.5 billion from privatization revenues, to fund irrigation projects in the Southeast. The bill also provides for a social security premium amnesty, which is the third such amnesty in seven years. Company employees and the self-employed are past due on YTL 42 billion (USD 34.1 billion) in social security payments, of which the GOT hopes to collect 56% (YTL 23.4 billion YTL or USD 19.0 billion) over the next 24 months. The controversial amnesty provision was a last-minute addition by the Labor Minister. When the head of the Social Security Administration complained, he was removed from office. The IMF lamented the amnesty and said such provisions reward those who pay late and do not penalize those who choose not to pay at all. End Summary.

¶2. (U) Under the new law, the GOT will pay five percentage points of employers' social security premiums, meeting a key demand of business groups. The law reduces employer administrative costs by, among other things, doing away with requirements for large employers to fund daycare facilities and hire ex-convicts. It provides incentives for hiring women and youths aged 18-29 by paying their social security premiums over five years on a sliding scale: 100% in the first year, and 80%, 60%, 40%, and 20% in the subsequent four years.

¶3. (SBU) The law also allows the GOT to transfer accrued interest from the unemployment insurance fund, along with USD 2.5 billion from privatization revenues, to the Southeast Anatolia Project (GAP) over the next three years, mainly to fund irrigation projects. This money is a down payment on the GOT's announced plan to spend USD 12 billion to finish the GAP over five years. Details of the GAP are outlined in reftel.

¶4. (C) The social security amnesty provision is the most controversial part of the new law. This is the third amnesty program in seven years. Earlier social security amnesties were in 2001 and 2005/06. Labor Minister Faruk Celik added the amnesty provision in the 11th hour of deliberation in the Parliament. When he complained about the provision, the head of the Social Security Administration was removed from office. This is deja vu, since the same thing happened to his predecessor in 2006.

¶5. (C) Lorenzo Giorgianni, IMF Turkey Representative in Washington, called the amnesty "a step backwards" that rewards those who fail to pay their taxes and social security

contributions. Private analysts estimate the amnesty will offer discounts on penalties and interest of between 30 and 85 percent for those who agree to pay past-due social security contributions over the next 12-24 months. The law also allows another chance to those who defaulted on promises to pay past-due amounts in the 2001 and 2006 amnesties.

Comment: Giving a second chance to non payers and a third chance to those who reneged on promises to repay is likely to encourage such behavior. It also does nothing to promote on-time payments or give the Social Security Administration a reliable income stream to pay retiree premiums. End Comment.

On May 30, Davide Lombardo, the IMF Deputy Representative in Turkey, noted that people could make money on the amnesties. With high interest rates in Turkey, they could skip social security payments, invest that money in bonds, and repay at zero interest when the next amnesty is offered.

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